

AMERICAN LEGISLATIVE EXCHANGE COUNCIL
ALEC

Prepared Statement on House Bill 184

of

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submitted to the

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Introduction

My name is Christie Herrera and I am the director of the Health and Human Services Task Force at the American Legislative Exchange Council, or "ALEC." ALEC is the nation's largest nonpartisan individual membership association of state legislators, with 2,000 state legislator members from all 50 states and more than 100 members of Congress. Since 2005, 38 states have enacted model legislation drafted by ALEC's Health and Human Services Task Force.

ALEC Commends House Bill 184

House Bill 184—which is modeled after ALEC's *Health Care Tax Relief Equity Act*—eliminates discriminatory treatment of individuals who purchase insurance on their own. The legislation allows a 7% state income tax credit for both the purchase of individual health insurance policies and out-of-pocket medical expenses.

Currently, only businesses receive tax breaks when they purchase health insurance for their workers; individuals purchasing health insurance must do so with "after tax" dollars. About 10% of Montanans purchase individual health insurance, and would benefit from this tax credit along with the uninsured who do not have access to employer-sponsored coverage.

House Bill 184 Will Help Mitigate the Federal Tax Distortion of Health Insurance

House Bill 184 attempts to correct, at the state level, a federal problem—that is, the tax breaks afforded to businesses, not individuals, for the purchase of health insurance. This is a worthy goal, as the Heritage Foundation explains that the federal tax distortion of health insurance is unfair, inefficient, and inequitable:¹

"It is unfair because only individuals with employer-sponsored insurance are able to receive tax relief, while individuals without access to such coverage typically pay for health insurance with after-tax dollars and, in effect, face a sizeable tax penalty. It is inefficient and inequitable because the largest tax benefits go to those who need them least; given the progressive structure of the tax code, the exclusion is regressive since it is worth less to taxpayers in lower marginal tax rates and more to those in higher marginal tax rates. Therefore, if the goal is to extend coverage to the uninsured, the tax break is poorly targeted because it provides little or no tax relief to those with low incomes, who are least able to afford health insurance."

Conclusion

ALEC applauds House Bill 184 because individuals deserve the same healthcare-related tax breaks that businesses currently enjoy. We look forward to working with the Montana Legislature in the weeks ahead to develop this proposal. I would be pleased to answer any questions you might have at 202-742-8505 or christie@alec.org.

¹ Greg D'Angelo and Robert Moffit, "Health Care Reform: Changing the Tax Treatment of Health Insurance," Heritage Foundation WebMemo #2344, March 16, 2009.